

PP14767/09/2012(030761)

Thursday, August 20, 2015

Amway (Malaysia) Holdings Bhd

“Bleeding Quarter”

Results Review

- Actual vs. expectations.** Amway (Malaysia) Holdings Bhd (Amway) recorded 6M15 net profit of RM47 million, that fell by 9% y-o-y compared to RM52 million in 6M14. The lower net profit was impacted by higher importation cost due to weakening of Ringgit against the USD. Notwithstanding that, Amway’s net profit of RM47 million came in line with ours and consensus expectation, accounting 46% and 44% of ours and consensus full year estimates respectively.
- Dividend.** Amway declared an interim single tier dividend of 10.0sen/shares in 2Q15, bringing total dividend to 20.0sen/shares for 6M15 translating into 70% payout ratio, slightly higher from the previous year of 64%.
- Top line.** 6M15 revenue surged to RM510 million compared to RM407 million in 6M14 (+25% y-o-y). The higher revenue was driven by pre-GST front loading consumption in 1Q15. Nonetheless, gross profit margin declined to 26% in 6M15 compared to 31% in 6M14 hammered by the recoiling of consumption post-GST in 2Q15.
- New product launch.** During the quarter, Amway introduced their new product in beauty and wellness segment (Table 1). We expect aggressive sales and marketing programmes will assist the group to face the challenging operation environment and give positive impact to earnings performance in FY15.

Weakening Ringgit to shave margins further. Of note, Ringgit has depreciated 16% y-o-y in 6M15 against USD. As a result, Amway GP margin has narrowed by 50bps t

HOLD (TP: RM10.50)

Current Price (RM)	RM10.18
New Fair Value (RM)	RM10.50
Previous Fair Value (RM)	RM10.50
Previous Recomm.	HOLD
Upside To Fair Value	3.1%
Dividend Yield (FY15F)	5.8%

Stock Code

Bloomberg	AMW MK
-----------	--------

Stock & Market Data

Listing	MAIN MARKET	
Sector	Consumer	
Shariah Compliance	Yes	
Issued Shares (mn)	164.4	
Market Cap (RM mn)	1,775.4mn	
YTD Chg In Share Price	5.22%	
Beta (x)	0.51	
52-week Hi/Lo (RM)	RM11.98	RM9.86
6M Average Volume (mn shares)	0.124mn	
Estimated Free Float	18%	

Major Shareholders

GDA BV	51.70%
ASB	14.46%
Kumpulan Wang	9.10%
Persaraan	
EPF	7.02%

Results Review - Amway (Malaysia) Holdings Bhd

26% pressured by escalating cost (70% of products imported). Moving forward, we expect Amway GP margin to remain soft coinciding with weak Ringgit that led to higher importation cost as the US continues with guessing game to adjust interest rate.

Table 1: New Product

Segment	Product
Beauty Brand	ARTISTRY IDEAL RADIANCE™ Illuminating CC Cream
	ARTISTRY IDEAL RADIANCE™ Illuminating Mask
Health Brand	NUTRILITE™ Protein Drink Mix Chocolate Flavour

Source: Company, M&A Securities

- **Outlook.** We foresee Amway will face a challenging business in FY15 and expect the group earnings for the next quarters would be soft following GST spending cautiousness and weakening of Ringgit against USD. The cost of their products importation will be higher due to weakening of Ringgit and may impact Amway's product price. We believe consumer will shift their consumption to cheaper product and this situation will give impact to Amway's earnings performance. However, we believe Amway will continue to focus on growing their business in beauty and wellness products through various sales and marketing initiatives despite the temporary softness in consumers' spending.
- **Changes to forecast.** We maintain our FY15 and FY16 earnings forecast of RM102 million and RM105 million respectively. Amway's PAT for FY15 and FY16 is expected to grow by 2% and 4% respectively assisted by 1) aggressive launch of new products; and 2) continuous aggressive sales and marketing activities on existing product.
- **Valuation & recommendation.** We maintain our target price for Amway at RM10.50 based on DDM valuation and the stock is a **HOLD**.

Table 2: Peers comparison (Calenderised)

Company	YE	Price (RM)	EPS (sen)		P/E (X)		P/BV (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY14	FY15	FY14	FY15	FY14	FY15				
Parkson*	Jun	2.02	17	19	17	16	1	1	5	NA	2.25	Hold
Amway	Dec	10.18	69	73	17	16	9	8	55	3.4	10.50	Hold
Nestle	Dec	71.56	254	277	27	24	18	18	58	3.5	59.30	Sell
MSM	Dec	5.40	34	38	14	13	2	2	13	5.1	5.30	Hold
Dutch Lady	Dec	46.80	216	229	22	20	14	16	58	2.4	40.00	Sell
Padini*	Jun	1.40	15	18	13	11	3	3	24	5.0	1.45	Hold
Scientex	July	7.10	68	80	10	8	2	2	20	4.0	7.30	Hold
Zhulian	Nov	2.05	11	33	10	6	2	2	10	5.1	1.80	Sell
Aeon Co	Dec	3.17	18	19	23	21	3	3	14	1.4	NA	NA
QL Resources	Mac	4.05	16	18	19	17	3	3	15	1.0	NA	NA
Average					18	15	5	5				

Source: Bloomberg, M&A Securities

Table 3: Financial Forecast

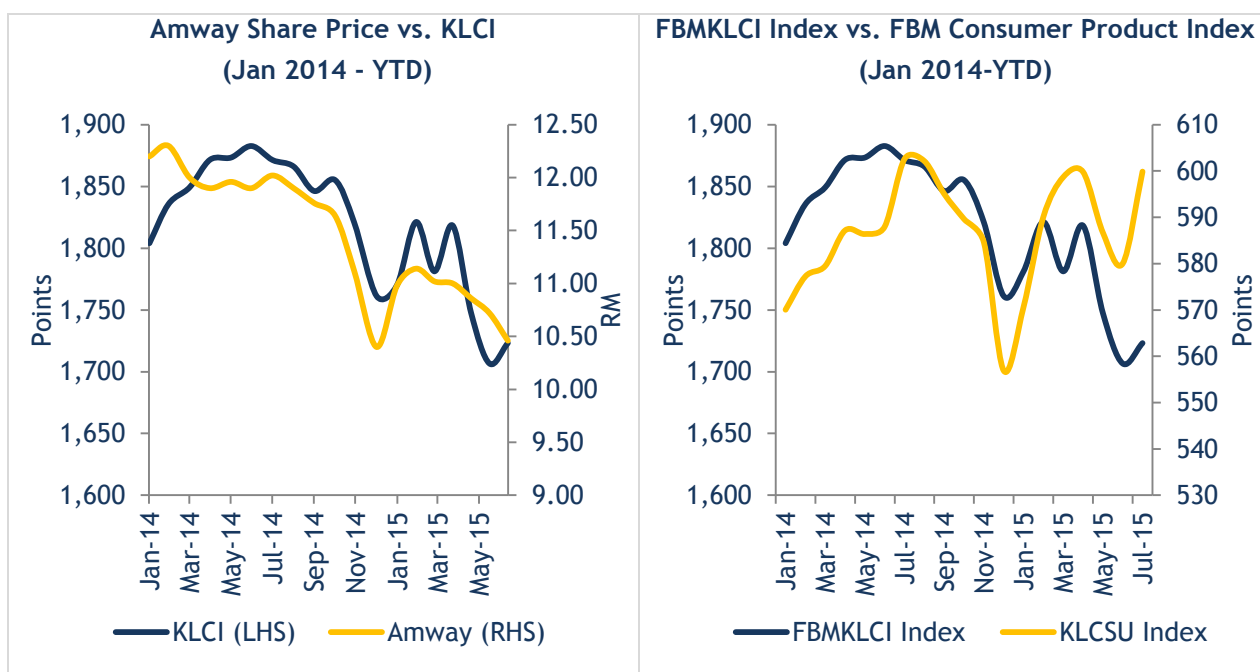
YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	798	861	856	890	917
Gross profit	252	272	258	275	286
Pre-tax Profit	137	148	135	139	147
Taxation	(37)	(40)	(35)	(37)	(41)
Net Profit	100	108	100	102	105
EPS (sen)	61	66	61	62	64
P/E (x)	19.8	18.6	17.1	18.0	17.6
P/BV (x)	8.7	8.7	8.2	8.1	8.1
GP Margin	31.5%	31.5%	30.2%	30.9%	31.2%
PBT Margin	17.2%	17.2%	15.7%	15.6%	16.0%
PAT Margin	12.5%	12.5%	11.7%	11.4%	11.5%
Dividend (RM)	0.66	0.72	0.55	0.60	0.60
Dividend yield (%)	7.1	3.3	5.0	5.8	5.8
Dividend payout	120.6	103.0	90.5	97.0	94.0

Source: Bursa Malaysia, M&A Securities

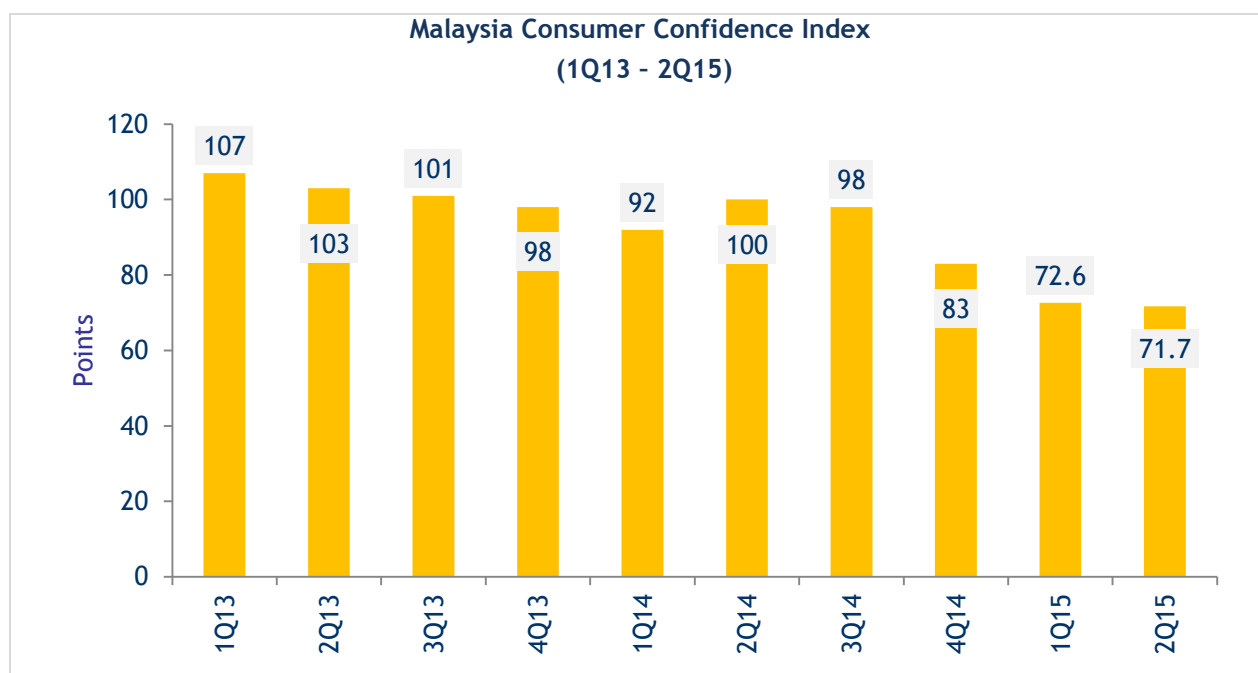
Table 4: Results Analysis

YE: Dec (RM million)	2Q15	2Q14	1Q15	q-o-q	y-o-y	6M15	6M14	y-o-y
Revenue	188	194	322	-42%	-3%	510	407	25%
Gross profit	46	59	88	-47%	-22%	134	125	8%
Other income	2	1	2	16%	48%	3	3	17%
Pre-tax Profit	13	35	50	-73%	-62%	63	70	-9%
Taxation	(3)	(9)	(13)	-77%	-66%	(16)	(18)	-9%
Net Profit	10	26	37	-72%	-61%	47	52	-9%
EPS (sen)	6	16	22	-72%	-61%	29	31	-9%
GP Margin	25%	31%	27%			26%	31%	
PBT Margin	7%	18%	16%			12%	17%	
PAT Margin	5%	14%	11%			9%	13%	

Source: Bursa Malaysia, M&A Securities



Source: Bloomberg, M&A Securities



Source: Bloomberg, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +15\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -15\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

DISCLOSURES AND DISCLAIMER

This report has been prepared by M&A SECURITIES SDN BHD. Readers should be fully aware that this report is for informational purposes only and no representation or warranty, expressed or implied is made as to the accuracy, completeness or reliability of the information or opinion contained herein. The recommendation and opinion are based on information obtained or derived from sources believed to be reliable.

This report contains financial forecast/projection based on our assumptions which may defer from the actual financial results announced by the companies under coverage. All opinions, estimates and assumptions are subject to change without notice. Analysts will initiate, update and cease coverage solely at the discretion of M&A SECURITIES SDN BHD.

Investors are to be cautioned that value of any securities invested may fluctuate from time to time. We advise investors to seek financial, legal and other advice for investing based on the recommendation of our report as we have not taken into account each investors' specific investment objectives, risk tolerance and financial position.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. M&A SECURITIES SDN BHD can accept no liability for any consequential loss or damage whether direct or indirect. Investment should be made at investors' own risks.

M&A SECURITIES SDN BHD and INSAS GROUP of companies, their respective directors, officers, employees and connected parties may have interest in any of the securities mentioned and may benefit from the information herein. M&A SECURITIES SDN BHD and INSAS GROUP of companies and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This report may not be reproduced, distributed or published in any form or for any purpose.

M & A Securities Sdn Bhd (15017-H)

(A wholly-owned subsidiary of INSAS BERHAD)

A Participating Organisation of Bursa Malaysia Securities Berhad

Principal Office:

Level 1,2,3 No.45 & 47, 43-6

The Boulevard, Mid Valley City,

Lingkaran Syed Putra,

59200 Kuala Lumpur

Tel: +603 - 2282 1820 Fax: +603 - 2283 1893

Website: www.mnaonline.com.my